City of Eau Claire

City Council
Fiscal Policy Advisory Committee
Report on Early Retirement Incentives

February 2010

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EAU CLAIRE CITY COUNCIL
FISCAL POLICY ADVISORY COMMITTEE
2010 EARLY RETIREMENT REPORT

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The Charge

During budget deliberations for the 2010 City of Eau Claire budget, the City Council passed the following Resolution:

> "To direct the Fiscal Policy Advisory Committee to study options for incentives for early retirements to reduce salary and longevity costs for eligible employees and report back to the City Council by March 1, 2010."

This Report will offer background information, data, conclusions and recommendations on the topic of early retirement options as a tool to lower longevity and employment costs.

How do early retirement plans work?

Early retirement plans offer an incentive for employees to retire from their jobs earlier or sooner than they would have without the incentive. This is typically done by offering an improved retirement health insurance benefit or supplementing retirement wages. Generally speaking, early retirement plans are used to avoid employee layoffs. These programs allow an organization to avoid the disruption of layoffs and bumping as well as the associated unemployment costs.

Background on a previous Early Retirement Plan offered by the City of Eau Claire

The City of Eau Claire offered an early retirement plan in 1995 to address the elimination of 16.5 positions. Details of the program include:

- All full-time and part-time employees in CTSEA, Local 284, CWA, Transit, and Police Command were offered the program.
- Employees accepting the program agreed to retire by February 28.
- There was no years-of-service requirement.
- City contribution of up to three years towards a limited family health plan.
- Ten employees participated in the program.

- The three-year cost of the program was $136,000.
- Had the employees retired without the incentive, the cost of health insurance would have been $68,000, resulting in a net increased cost of $68,000 for the program.
- Avoided unemployment costs were $69,000.
- Payroll savings were approximately $1.2 million because the positions were not replaced.

Background on the 2009 Early Retirement Plan offered by Chippewa Falls

Due to budget constraints, the City of Chippewa Falls eliminated eight positions in their 2010 budget. In order to avoid layoffs, the City of Chippewa Falls offered an Early Retirement Plan in 2009. Details of the program include:

- All employees over 60 years of age were offered the program.
- Employees accepting the program agreed to retire before the end of the year.
- No years-of-service requirement.
- 100% of the premium of a high deductible health insurance plan would be paid (at the 2010 rate) by the City for up to 5 years.

Nine employees accepted the offer. The program will cost about $170,000 in one-time payout costs (Chippewa Falls pays out unused sick leave) The increased cost in 2010 for the premium contributions is expected to be about $70,000. There will be additional costs in each of the following four years. The cost of unemployment that was avoided is not known at this time. The budget savings will arise from the eliminated positions.

Background on the Early Retirement Plan offered by Chippewa County

Due to budget constraints, Chippewa County eliminated positions in its 2010 budget. In order to avoid layoffs, Chippewa County offered an Early Retirement Plan in 2009. Details of the program include:

- Employees over 58 years of age were offered the program.
- Ten years of continuous service required.
- WRS retirement from County employment required.
- Must be enrolled in health insurance at the time of the offer.
- Must sign retirement and release agreement.
- Any paid out leave balances must be converted to a tax deferred plan.
- County to pay three years of high deductible plan premium at 2009 pricing.

Nineteen employees accepted the offer. Two of the positions were replaced, the rest eliminated.

Do costs go down when replacing a position that is vacated by a retirement?

Sometimes, but not always. Longer term employees are at the top of their wage scale, may earn longevity, and have educational incentive payments that a new employee may not have at the time of hire. However, new employees are likely to need family plan health insurance, while the retiring employee was using a limited family health insurance plan. The increased cost in health insurance can more than offset the reduced wage and longevity savings from a new hire.

What is the impact of a retirement on the organization?

A retirement presents the organization with a loss of knowledge and expertise that is hard to replace. For highly technical positions in police, fire, information services, and accounting this can be a big impact. For example, it can take up to a year to train a new police officer to the level where they can patrol alone. On the positive side, a new employee can bring new ideas, energy and enthusiasm to a position.

What is the City's turnover experience with retirements?

The organization is experiencing increased turnover as the "baby boomers" move into retirement. This has caused the average number of retirements per year to increase from 8-10 per year to the current rate of 20-25 per year.

- Twenty years ago we averaged about 8-10 retirements per year.
- Ten years ago we averaged 15 retirements per year.
- Five years ago we averaged 19 retirements per year.
- In the last two years we have averaged 23 retirements per year.

The two primary factors that employees consider when deciding when to retire are age and years of service. Based upon the demographics of our current employees (age and years of service), we can expect 20-25 retirements each of the next five years. These are only estimates and the decision to retire remains a voluntary, personal decision for each employee and his or her family.

Based upon these projections, it is reasonable to expect that 20 to 25% of the City's employees will leave City employment in the next 5-6 years. This turnover will present challenges due to the loss of institutional knowledge and leadership within the organization. However, the accelerated turnover rate will also provide an opportunity to respond to budget challenges by rethinking the staffing structure of our operations and modifying service levels with a decreased possibility of layoffs.

What was the impact of position vacancies on the 2010 budget?

In the General Fund, vacancies created by retirements in 2009 provided the ability to eliminate positions without laying off any employees in the 2010 budget. The General Fund was reduced by $679,500 in the 2010 budget due to these retirements, without the use of early retirement incentives. For all funds we eliminated or held open 10.05 positions.

What is the ability to change or impact the cost of longevity payments?

Longevity payments are negotiated benefits with our labor groups. Any change must be negotiated within the parameters defined by State law.

Which City of Eau Claire employee groups receive longevity payments?

	LONGEVITY BY UNION/BARGAINING UNIT	
UNION CODE	DESCRIPTION	BENEFIT
A	LOCAL 284	3% of base wages after 8 years of employment, 6% after 12 years.
B,C,D	CTSEA	3% of base wages after 8 years of employment, 6% after 12 years. Anyone hired by the City of Eau Claire after July 1, 1989 and represented by this group will not qualify for longevity.
E	FIRE COMMAND	3% of base wages after 8 years of employment, 6% after 12 years. Anyone hired by the City of Eau Claire after July 1, 1989 and represented by this group will not qualify for longevity.
F	TELECOMM	3% of base wages after 8 years of employment, 6% after 12 years. Anyone hired by the City of Eau Claire after July 1, 1986 and represented by this group will not qualify for longevity.
G	DIVISION HEAD	3% of base wages after 8 years of employment, 6% after 12 years
H	CONFIDENTIAL	3% of base wages after 8 years of employment, 6% after 12 years. Anyone hired by the City of Eau Claire after July 1, 1993 and represented by this group will not qualify for longevity.
I	MANAGERIAL	Ineligible
J	POLICE PATROL	3% of base wages after 8 years of employment, 6% after 12 years.
K	POLICE COMMAND	3% of base wages after 8 years of employment, 6% after 12 years.
L	FIREFIGHTERS	If hired before July 15, 1989, 3% of base wages after 8 years of employment, 6% after 12 years If hired after July 15, 1989, 6% of base wages after 20 years.
T	TRANSIT	Ineligible

What are the expected costs for longevity pay in 2010?

EXPECTED COSTS FOR LONGEVITY PAY IN 2010					
	Represented Employees				
	Number of Participating Employees	Percent Participation	Average Cost Per Employee		Total Cost
Firefighters	22	26%	3,068		67,506
Local 284	75	66%	2,365		177,342
Patrol	44	57%	2,920		128,458
Telecommunicators	5	24%	2,614		13,069
Total Represented	146	49%			386,375
	Non-Represented Employees				
	Number of Participating Employees	Percent Participation	Average Cost Per Employee		Total Cost
Confidential	7	57%	2,441		17,085
CTSEA	29	29%	2,850		82,650
Division Heads	15	83%	3,699		55,479
Fire Command	4	100%	3,833		15,332
Police Command	18	95%	3,623		65,211
Total Non-Represented	73	48%			235,757
	219		Subtotal		622,132
			Total FICA	*	42,457
			Total WRF	**	92,766
			Total Cost of Longevity Pay		757,355

** The rate for calculating FICA is 7.65% which includes Medicare. The Firefighters are only included in the payment of Medicare at a rate of 1.45%.*

*** The WRF rate for all General employees is 11.0% except the CTSEA employees which is 10.9%, for Fire employees is 20.6%, and for Police employees is 19.5%.*

What are the anticipated longevity and wage savings if the City of Eau Claire offered an early retirement package similar to what was offered in 1995?

Anticipated Longevity and Wage Savings

Heavy Equip Operator at Age 57
Replaced by Senior Light Equip Operator for No Savings
Hire replacement Light Equip Operator

Light Equip Operator at Top of Range		
Wages	$	42,713
Longevity		2,537
Total	$	45,250
Light Equip Operator at Beginning of Range		
Wages	$	39,534
Longevity		-
Total	$	39,534
Savings Year 1		
Saved Wages	$	5,716
Inc Cost of Retiree Health Ins		(16,765)
Net Savings (Cost)	$	(11,049)
Savings Year 2		
Saved Wages	$	4,716
Inc Cost of Retiree Health Ins		(16,765)
Net Savings (Cost)	$	(12,049)
Savings Year 3		
Saved Wages	$	3,616
Inc Cost of Retiree Health Ins		(16,765)
Net Savings (Cost)	$	(13,149)
Three Year Net Savings (Cost)	$	(36,246)

Three Years of Limited Family Health Insurance Premiums		
Monthly Premium	*$*	*1,397*
Annualized	*$*	*16,765*
Three-Year Cost	*$*	*50,296*

Police Officer at age 50
Replace with New Recruit

Police Officer at Top of Range		
Wages	$	52,375
Longevity		3,096
Educational Incentive		4,480
Total	$	59,951
Entry Level Officer		
Wages	$	44,674
Longevity		-
Educational Incentive		-
Total	$	44,674
Savings Year 1		
Saved Wages	$	15,278
Longevity		-
Educational Incentive		(1,120)
Inc Cost of Retiree Health Ins		(8,755)
Net Savings (Cost)	$	5,403
Savings Year 2		
Wages Saved	$	13,394
Longevity		-
Educational Incentive		(2,240)
Inc Cost of Retiree Health Ins		(8,755)
Net Savings (Cost)	$	2,399
Savings Year 3		
Wages Saved	$	11,442
Longevity		-
Educational Incentive		(3,360)
Inc Cost of Retiree Health Ins		(8,755)
Net Savings (Cost)	$	(674)
Three Year Net Savings (Cost)	**$**	**7,128** *

As long as new recruit's Health Insurance Is not more than that of the retiring officer.

Summary

The City of Eau Claire is experiencing an increase in retirements due to the demographics of our employee population. The incentives required to induce more retirements are generally more expensive than the savings that would result in reduced wage and longevity costs with a new hire. The example on the prior page (recapped below) shows what is likely to happen when a retiring light equipment operator who accepts an early retirement package similar to what was offered in 1995 is replaced with a new hire. The cost of the early retirement health incentive exceeds the savings from the new hire's wages and longevity.

Early retirement health insurance cost	$16,765
Savings from new hire's Wages and longevity	-5,716
Net cost increase	$11,049

In those cases where some wage payment and longevity savings could be realized with an early retirement program, the lost productivity of training the new employee quickly eliminates the dollars saved. Finally, the new hire may require a more expensive health insurance plan than the employee encouraged to retire by the incentive.

Early retirement incentive plans may be useful tools for creating capacity within the organization to avoid layoffs and unemployment costs. For example, eliminating a position with a layoff could incur up to $26,000 in unemployment costs. Spending $16,765 on an early retirement health insurance program would avoid the layoff expenses and create a one-year savings of $9,235 in addition to the savings derived by not filling the position.

In conclusion,

- Early retirement programs are not an effective tool to lower the cost of longevity programs if the position will be filled with a new employee.
- Early retirement incentives for eliminated positions may be effective in realizing, as soon as possible, the potential wage and benefit savings along with avoiding unemployment costs.
- The elimination of longevity by some groups and not others may create wage compression between supervisors and subordinates.
- Should the City be looking at a layoff situation, an early retirement program should be evaluated as a possible mechanism to avoid unemployment costs, reduce those and other expenditures, and reduce the personal impact associated with layoffs.